United Nations A/64/132

General Assembly

Distr.: General
13 July 2009

Original: English

Sixty-fourth session
Item 62 (b) of the preliminary list*
Social development, including questions relating to the world social situation and to youth, ageing, disabled persons and the family

Cooperatives in social development

Report of the Secretary-General

Summary

The present report responds to General Assembly resolution 62/128, in which the Secretary-General was requested to submit a report on the socio-economic impact of cooperatives and the desirability of proclaiming an International Year of Cooperatives and the progress made in promoting cooperatives. The report underscores the importance of cooperatives to socio-economic development and how agricultural and financial cooperatives contribute to long-term solutions for food security and a more resilient and inclusive financial system, in the light of the food and financial crises worldwide. It suggests that proclaiming an International Year of Cooperatives is an opportune moment to highlight the importance of cooperatives in development.

* A/64/50.

09-40201 (E) 280709

Please recycle

Contents

I. Introduction

II. Cooperatives and socio-economic development

A. The impact of cooperatives in development

B. Agricultural cooperatives: food security and rural development

1. Contributions to agricultural production and productivity

2. Improving access to markets

3. Improving access to agricultural financing

C. Financial cooperatives in development

1. Financial cooperatives and the current financial and economic crises

2. Financial cooperatives and poverty reduction

D. Leveraging cooperatives for development

III. Consultation and survey results

A. The proposed International Year of Cooperatives

B. Survey results

IV. Conclusion and recommendations

Annexes

I. List of Member States that responded to the survey

II. List of apex organizations that responded to the survey

I. Introduction

1. The present report is submitted in response to General Assembly resolution 62/128, in which the Secretary-General was requested to promote the contribution of cooperatives to development and to consult with Member States on the desirability and feasibility of proclaiming an International Year of Cooperatives and to report on the progress in the implementation of the resolution.

2. Chapter II highlights the important contribution of cooperatives in general and of agricultural and financial cooperatives in particular to socio-economic development.[1] The first section discusses how cooperatives, as self-help organizations that meet the needs of their members, help to generate employment and incomes in the communities in which they operate. The second and third sections focus on agricultural and financial cooperatives, respectively, in light of the energy, food, financial and economic crises that have developed worldwide since 2008. These sections build the case that cooperatives are important components of long-term solutions for food security and a more resilient and inclusive financial system. Together, they underscore the desirability of an international year to promote cooperatives. The fourth section discusses how Member States and cooperative stakeholders can leverage the contributions of cooperatives for development and economic recovery.

3. Chapter III discusses the result of consultation with Member States and cooperative stakeholders on the desirability and feasibility of proclaiming an International Year of Cooperatives. It also presents the survey results on issues related to challenges and initiatives made in providing a supportive and enabling environment for the development of cooperatives. It complements the findings discussed in previous reports of the Secretary-General on the role of cooperatives in: (a) promoting full and productive employment (A/62/154) and; (b) the eradication of poverty (A/60/138). In both past reports, initiatives taken by national and international stakeholders and the cooperative movement to promote, support and sustain cooperative enterprises were discussed. Those reports also presented Government efforts on the implementation of the United Nations guidelines aimed at creating a supportive environment for the development of cooperatives[2] of 2001 and the ILO Recommendation No. 193 concerning the promotion of cooperatives.

4. Chapter IV presents policy recommendations for Governments and other cooperative stakeholders.

II. Cooperatives and socio-economic development

A. The impact of cooperatives in development

5. Cooperatives, organized as business enterprises for the benefit of their members, offer a model of enterprise that is particularly relevant in difficult economic times and instances of market failures. As a self-help group, a cooperative organization is widely accessible, especially for the impoverished and the

---

[1] Reflecting the results of the expert group meeting entitled "Cooperatives in a world in crisis", held at the United Nations in New York from 28 to 30 April 2009.

[2] See General Assembly resolution 56/114 and A/56/73-E/2001/68, annex.

marginalized. Where private enterprise or government is weak, particularly in remote rural areas, cooperatives enable local people to organize and improve their conditions. Cooperatives promote and support entrepreneurial development, creating productive employment, raising incomes and helping to reduce poverty while enhancing social inclusion, social protection and community-building. Thus, while they directly benefit their members, they also offer positive externalities for the rest of society and have a transformational impact on the economy.

Box 1
Cooperatives — definition, values and principles

A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations, through a jointly owned and democratically controlled enterprise.

The seven principles that cooperatives subscribe to are: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; cooperation among cooperatives; and concern for community. The first four of these are core principles without which a cooperative would lose its identity; they guarantee the conditions under which members own, control and benefit from the business. The education principle is a commitment to make membership effective and so is a precondition for democratic control, while cooperation among cooperatives is a business strategy without which cooperatives remain economically vulnerable. The last principle, concern for community, is about corporate responsibility, and it pertains to other concerns that the cooperative movement is promoting, such as the prevention of poverty and protection of the environment.

There are three main types of cooperatives. Consumer cooperatives, which include financial cooperatives, enable members to buy goods or obtain services at close to cost price. Producer cooperatives, which include agricultural cooperatives, enable members to achieve higher profits through reduced input costs and better marketing. Worker or employee-owned cooperatives provide members with opportunities for employment and skills improvement.

Source: International Cooperative Alliance website, www.ica.coop; J. Birchall, paper presented at the expert group meeting on cooperatives, United Nations, New York, 28-30 April 2009.

6. Cooperatives are important economic players (see box 2). Financial cooperatives, including credit unions, serve millions of members while some of the largest retailers in the world are consumer cooperatives. Meanwhile, agricultural cooperatives account for a significant part of agricultural production. In trying to assess the scale of the global cooperative movement and its contribution to the global economy, the International Cooperative Alliance (ICA) compiled the Global 300 which lists the top 300 global mutual and cooperative organizations. The 2008

list shows that the 300 top cooperatives are responsible for an aggregate turnover of $1.1 trillion (see www.ica.coop).

Box 2
Cooperatives: some basic facts

- The cooperative sector worldwide has about 800 million members in over 100 countries through the membership organizations of ICA. Overall, it is estimated that cooperatives account for more than 100 million jobs around the world. In terms of percentage of a country's gross domestic product (GDP) attributable to cooperatives, the proportion is highest in Kenya at 45 per cent, followed by New Zealand with 22 per cent.
- Agricultural cooperatives account for 80 to 99 per cent of milk production in Norway, New Zealand and the United States of America; they account for 71 per cent of fishery production in the Republic of Korea; and 40 per cent of agriculture in Brazil.
- Electric cooperatives are important providers in rural areas. In Bangladesh, rural electric cooperatives provide service for 28 million people. In the United States, 900 rural electric cooperatives serve 37 million people and own almost half of the electric distribution lines in the country.
- 49,000 credit unions serve 177 million members in 96 countries, under the umbrella of the World Council of Credit Unions.
- 4,200 European cooperative banks, under the aegis of the European Association of Cooperative Banks, serve 149 million clients, including small and medium enterprises.

Source: ICA website, www.ica.coop; World Council of Credit Unions and European Association of Cooperative Banks; International Labour Organization, Fact Sheet, *Cooperatives and Rural Employment*, 2007.

7. Cooperatives also provide opportunities for social inclusion. In the informal economy, workers have formed shared service cooperatives and associations to assist in their self-employment.[3] In rural areas, savings and credit cooperatives provide access to banking services which are lacking in many communities. Credit cooperatives in financing the formation of small and micro businesses, promotes inclusive finance that the United Nations envisages reaching the poor in a sustainable way.[4]

8. In many countries, cooperatives and mutual benefit societies are substantial providers of social protection, especially health coverage, and they operate as voluntary community-based schemes. In some countries, they also participate in the management of compulsory health insurance or provide services through their

[3] S. Smith and C. Ross, "Organizing out of poverty: how the SYNDICOOP approach has worked in East Africa", ILO, ICA and the International Confederation of Free Trade Unions, 2006.

[4] See World Bank, *Finance for All* (Washington, D.C., 2007).

networks of health and social facilities. Cooperatives and mutuals cover 69 million persons in Asia, 13 million in Latin America, 25 million in Africa, and 5 million in the Middle East.[5] Governments have partnered with cooperatives to extend social protection. For example, the Yeshasvini Cooperative Farmers Health Scheme (Karnataka, India), which serves 2 million people, is financed by members' annual premium contributions and government subsidy.[6]

9. Cooperatives have also been instrumental in peacebuilding and creating bridges of communication in areas of conflict or ethnic division. In Sri Lanka and Nepal, cooperatives have been the only independent organizations allowed by all parties to operate in conflict zones. In post-conflict areas, cooperatives also play a crucial role in restoring both the economy and civil society.

10. Like other business enterprises, cooperatives have limitations. The success of cooperatives is a function of capable management and governance and the ability to adapt to prevailing business conditions. Cooperatives have also been viewed as State instrumentalities or parastatals, and as being less concerned about the genuine needs of their members. Some also view the cooperative principles and structures as limiting the ability to quickly respond to market changes. Cooperative charters also often include restrictions on their ability to raise capital.

11. A social welfare issue also arises when large producer cooperatives behave as monopolies in the market place. While such behaviour benefits cooperative members, it imposes a social welfare cost to consumers. This argument, however, is less of an issue in consumer cooperatives, where members are the consumers.

12. A challenge with the cooperative structure, based on the conflict of interest between members and management, is its vulnerability to management opportunism. This arises when the cooperative membership base is very large so that individual member interest is diffused relative to management's interests and incentives. Failures of cooperatives have often been attributed to this particular vulnerability. Examples in this regard include cases where members elected into official positions grant large loans for themselves in violation of the rules or take arbitrary decisions on the hiring and firing of staff or take strategic decisions with private interest in mind.[7] To address this issue, due enforcement of regulation through effective supervision, member training and ethics guidelines for managers is essential.

13. Cooperatives have also faced the threat of demutualization, which converts the organization into investor-owned. The competitive pressure to expand, which requires raising large amounts of capital more quickly in the capital markets, as well as management's interests for larger compensation, are among the drivers of demutualization. While the social welfare effects of demutualization are difficult to establish, as when larger profits for investors and larger compensation for managers would necessarily lead to lower prices and/or better products and services for consumers, the recent failures of demutualized societies in the United Kingdom,

---

[5] Association Internationale de la Mutualité, statistical information on mutual insurances, http://www.aim-mutual.org/uploads/fmanager/about_mutuality/ en_pop_couverte_par_ mutuelle_monde.pdf (accessed 18 May 2009).

[6] ILO, Subregional Office for South Asia, "Extension of Social Protection in India: Yeshasvini Cooperative Farmers Health Scheme", 2007.

[7] R. Chao-Beroff and others, *A Comparative Analysis of Member-Based Microfinance Institutions in East and West Africa*, Nairobi, MicroSave, 2000.

namely Northern Rock and Bradford and Bingley, have led consumers to transfer their business back to the mutual building societies.

14. The United Nations recognizes the cooperative movement as an important partner in the implementation of the development agenda as shaped by the United Nations global conferences and summits since the 1990s. The 1995 World Summit for Social Development in Copenhagen underscored the importance of cooperatives in a people-centred approach to development. Governments adopted the United Nations guidelines on cooperatives[2] of 2001 which serve to guide cooperative formation, as well as limit the role of Governments to one of providing an enabling environment and level playing field so cooperatives can operate on a sustainable basis alongside other types of business. The ILO Recommendation No. 193 of 2002 emphasizes the need to promote the business potential of cooperatives so they can contribute to sustainable development and decent employment.

B. Agricultural cooperatives: food security and rural development

15. Agricultural cooperatives, which are typically organized as supply and/or marketing cooperatives contribute to the development of rural areas. In 2002, International Federation of Agricultural Producers/International Cooperative Agricultural Organization estimated that there were about 569,000 agricultural cooperatives worldwide. Cooperatives enable farmers to pool limited resources to enhance earnings capacity through lower input and credit costs and better marketing of products. For instance, agricultural cooperatives are important in areas where the private sector, owing to market failure, is weak or unable to meet the needs of farmers for agricultural inputs or credit. They also improve the market reach and bargaining power of farmers in marketing agricultural products. Thus, agricultural cooperatives enable farmers to improve their earning and productive capacities.

1. Contributions to agricultural production and productivity

16. Agricultural cooperatives play an important role in food production and distribution.[8] In India, there are some 150,000 primary agricultural and credit cooperatives serving more than 157 million agricultural/rural producers. In the Republic of Korea, agricultural cooperatives have a membership of over 2 million farmers (representing 90 per cent of all farmers). In Japan, agricultural cooperatives cover 90 per cent of all farmers. In France, they account for 60 per cent of agricultural inputs, 57 per cent of agricultural production and 35 per cent of agricultural processing.[9] In Brazil, for example, cooperatives are responsible for 40 per cent of agricultural GDP, and 6 per cent of the agricultural business exports. However, some very large producer cooperatives, by behaving as monopolists, impose a social welfare cost by restricting production, resulting in higher prices for consumers.

17. Some agricultural cooperatives improve farm productivity by obtaining inputs at low cost, and by adopting sustainable farming techniques and through management and organizational development of members. In Nicaragua, for example, Central de Cooperativas de Servicios Multiples (PRODECOOP), a federation made up of small

[8] ICA, Statistical Information on the coop movement, http://www.ica.coop/coop/statistics.html (accessed 12 May 2009).

[9] World Bank, *World Development Report, 2008*, Washington, D.C., 2008.

coffee-producing cooperatives, implemented a strategy of integrating primary cooperative societies in a given area.[10] This strategy improved the quality of the coffee and trade in the international market. PRODECOOP also maintained an Education and Training Fund capitalized with 20 per cent of the surplus obtained in each production as a means for improving productivity. In Guatemala, the Federación de Cooperativas Agrícolas de Productores de Café de Guatemala increased farm productivity and the quality of coffee through the application of appropriate technology and good agricultural practices and implementation of an internal control system.

18. Agricultural cooperatives also help in food security by giving incentives to small and subsistence farmers to contribute in food production. Through economies of scale in obtaining training, credit for farm inputs, and arranging for irrigation, cooperatives enable these farmers to improve their productivities and raise output. With improved marketing, cooperatives enable these farmers to obtain better prices in the market place, giving them the right incentives to produce for surplus.[11]

19. Agricultural cooperatives also promote the participation of women in economic production, which, in turn helps in food production and rural development. Through cooperatives, women are able to unite in solidarity and provide a network of mutual support to overcome cultural restrictions to pursuing commercial or economic activities. Women-only cooperatives in South Asia, for example, facilitate economic independence and improve the social standing of women through active participation in businesses and exposure to management experience and other training. A survey in Nigeria indicated that compared to non-cooperative members, women engaged in cooperative activities were better off, both in terms of productivity and economic well-being.[12] Nonetheless, the overall level of participation of women in agricultural cooperatives remains low. In agricultural cooperatives in many Asian countries, women account for only 2 to 10.5 per cent of total membership.[13] The low participation rate in cooperatives is attributed to a lack of resources and information and to cultural constraints.

2. Improving access to markets

20. Agricultural cooperatives help in marketing agricultural products and in improving farmers' access to markets. It is estimated that 50 per cent of global agricultural output is marketed through cooperatives.[14] Cooperatives provide farmers with the mechanisms to avoid destructive competition among each other and to increase their collective bargaining power vis-à-vis retailers. Typically, a marketing cooperative operates through an apex organization that coordinates with other cooperatives in the network to take a unified negotiating position in dealing

[10] A. Costa Pinto, paper presented at the expert group meeting on cooperatives, United Nations, New York, 28-30 April 2009.

[11] G. Veerakumaran, "Role of Cooperatives in Food Security — A case of Ethiopia", http://www.eeaecon.org/5th%20Inter%20Papers/Dr.G.Veerakumaran%20-%20EEAMUCOOP1.htm (accessed 15 May 2009).

[12] P. S. Amaza, P. V. Kwaghe and A. A. Amos, "An analysis of women's participation in agricultural cooperatives: a case study of Borno state of Nigeria", http://www.cababstractsplus.org/abstracts/Abstract.aspx?AcNo=20026791745 (accessed 12 May 2009).

[13] D. Prakash, "Rural Women, Food security and Agricultural cooperatives", Rural Development and Management Centre, "The Saryu" (New Delhi, India, February 2003).

[14] A. Bibby and L. Shaw, editors, *Making a Difference: Cooperative Solutions to Global Poverty* (Manchester, Cooperative College, 2005).

with buyers. Through this process, small farmers are able to increase farm revenues, lower marketing and information-gathering costs, as well as enter into high-value supply chains that they would not be able to do on their own. Marketing cooperatives therefore enable smallholder farmers to deal with imperfect markets, which are particularly common in remote rural areas, and to minimize the attendant high transaction costs. A survey in Ethiopia found that cooperative members were able to sell their produce at higher prices than were non-members.[15]

21. In Africa, agricultural cooperatives promote an exchange economy by helping develop markets in remote rural areas.[16] By providing a ready market for farmers' crops and reducing transaction costs, cooperatives promote the participation and integration of small farmers to the broader economy. Nonetheless, one factor slowing the participation of small farmers in marketing cooperatives is the distrust arising from the history of cooperatives as parastatals, or State instrumentalities.

22. The marketing of certain agricultural products (e.g., coffee) has seen increasing integration with the international supply chain. While this has improved marketing for cooperatives, it has also raised new challenges regarding the bargaining position of smallholder farmers and their cooperatives relative to large, powerful retailers. Large global retailers often have greater bargaining power and have better information and are in a stronger position to extract unfavourable terms of trade or concessions from cooperatives.[17]

23. Certain agricultural cooperatives that produce commodities such as coffee, cocoa, tea and cotton have improved their access to local markets by working in partnership with the Fair Trade movement. Under the Fair Trade mechanism producers are guaranteed a price that covers the cost of production plus a fair profit margin. In return, producers are expected to meet the Fair Trade Standards — social, economic and environmental — such as avoiding the use of child labour, rules on pesticide use, farming techniques and recycling. Thousands of smallholder farmers belonging to coffee cooperatives in Ethiopia, Rwanda, Timor-Leste and in Central America benefit from this arrangement.

24. Agricultural marketing cooperatives reduce the role of middlemen in food distribution. Under certain size, these marketing cooperatives help to keep profit margins low throughout the value chain, thereby reducing the pressure to maintain high food prices. Nevertheless, large marketing cooperatives have also been known to impose monopolistic pricing that results in higher prices than would be under competitive conditions.

3. Improving access to agricultural financing

25. Access to agricultural credit is one of the challenges to agricultural production. Historically, agricultural financing is provided by cooperative banks rather than agricultural cooperatives. These cooperatives are referred to as Raiffeisen-type cooperatives and have a strong presence in rural areas in Europe. "The Raiffeisen

---

[15] G. Veerakumaran, "Role of cooperatives in food security — a case of Ethiopian coffee farmers cooperatives", *African Study Monographs*, Suppl. No. 35 (March 2007).

[16] S. Chambo, paper presented at the expert group meeting on cooperatives, United Nations, New York, 28-30 April 2009.

[17] M. Hanisch, paper presented at the expert group meeting on cooperatives, United Nations, New York, 28-30 April 2009.

groups in Austria, Switzerland and Luxembourg, credit cooperatives in Italy, the cajas rurales in Spain, and the group Credito Agricola in Portugal are all disproportionately present in the countryside. The cajas rurales, for example, account only for about 5 per cent of the Spanish banking market on various measures, but they control about half the retail market in some rural provinces. It is also worth noting that Credit Agricole has a 90 per cent market share in France's agricultural banking market.[18]

26. More recently, however, agricultural cooperatives are becoming more involved in agricultural financing, directly or indirectly. In some countries such as Ghana, Egypt and Kenya, agricultural cooperatives are diversifying their activities into savings and credit provision.[19]

27. In other countries, agricultural cooperatives enter into credit arrangements with cooperative banks. In Mozambique, for example, the Maraga sugar cane growers' cooperative has a credit arrangement with Rabobank, the largest agricultural cooperative bank in the world. Using credit provided by Rabobank, the apex organization purchases farm inputs which it distributes to its primary societies or cooperatives before the harvest and the next planting season. After the harvest and the processing of the sugar cane, Rabobank gets repaid directly by the sugar factory (the sugar cane buyer). The remaining net proceeds are paid out to the cooperatives and support their production. This model integrates credit, acquisition of inputs and marketing with the agricultural produce as collateral. Agricultural cooperatives in Rwanda, the United Republic of Tanzania and Zambia have similar arrangements with Rabobank.

C. Financial cooperatives in development

28. Financial cooperatives enable members to meet their needs for financial services, such as savings and credit, at low-cost and with easy access through the pooling of limited capital. The members' mandatory purchase of ownership shares in the cooperative and their deposit/savings accounts serve as the funding base to enable the cooperative to extend credit to members.

29. Financial cooperatives are often known as credit unions, savings and credit cooperatives or cooperative banks. Membership is typically based on a common bond that helps to establish trust between net savers and borrowers. Financial cooperatives operate with a different set of values and objectives than investor-owned banks and are based on a model driven not only by profit motives but also by social objectives that focus on service and responsiveness to members' needs. Financial cooperatives generally operate at the retail level and are smaller than large investor-controlled banks and thus have a limited need to raise capital in wholesale markets. Their credit underwriting generally requires that a member's deposit account is well established before credit is extended, instilling thrift among members. Because they have a lower cost structure compared to other banks, they are able to pay competitive deposit rates and charge less for their credit products.

[18] W. Fonteyne, "Cooperative banks in Europe — policy issues", International Monetary Fund Working Paper, WP/07/159, July 2007.

[19] P. Develtere, I. Pollet and F. Wanyama, *Cooperating out of poverty: The renaissance of the African cooperative movement*, editors (International Labour Office and World Bank Institute, 2008).

30. Financial cooperatives become part of a network of financial cooperatives to exploit economies of scale and obtain common services such as external funding, internal control functions and Government liaison.[20] Networking also allows cooperatives to be more flexible and responsive to customers' needs as it extends its geographical reach and expands product offerings. Networking in financial cooperatives ranges from highly integrated networks, where each primary cooperative can offer the services and resources of the entire network as in the case of the Canadian Caisses Desjardins[21] to the more loosely integrated networks, where the apex body plays more of an advocacy role. Networks can play a role in providing training and technical assistance to affiliated cooperatives, acting as a central deposit and inter-lending facility, and providing information technology support.

31. Globally, financial cooperatives of all types serve an estimated 857 million people, or 13 per cent of the world population.[22] Leading global financial cooperatives include: in France, Crédit Cooperatif, which is highly involved in supporting social economy initiatives and institutions while Banques Populaires Group is a leader in the financing of small and medium enterprises; Rabobank is a leading partner of the agriculture industry in the Netherlands and abroad; OP-Pohjola Group of Finland, and the Desjardins Group of Canada, are leaders in agriculture, housing and small and medium enterprises markets of their respective countries.[23]

32. In developing countries, access to financial services in many small towns or villages is often offered only by financial cooperatives. In West Africa, for example, Réseau des caisses populaires du Burkina Faso, Niesigyso, Kafo Jigeney in Mali, and Pamecas, Crédit Mutuel du Sénégal, and health cooperative networks managed by national experts offer services in almost every part of these countries. In Mexico the Caja Popular Mexicana cooperative maintains a ubiquitous presence throughout the country.[23]

33. Financial cooperatives are the largest providers of microfinance services to the poor.[24] It is estimated that globally, financial cooperatives reach 78 million clients living below a poverty line of $2 per day.[24] In South Asia, for example, 54.5 per cent of borrowers living below $2 per day were served by cooperatives, compared to 19 per cent served by other microfinance providers.[24] Financial cooperatives thus play a central role in the achievement of an inclusive financial sector that encompasses the poor.

---

[20] John H. Magill, "Credit unions: a formal-sector alternative for financing microenterprise development", in Maria Otero and Elisabeth Rhyne, editors, *The New World of Microenterprise Finance: Building Healthy Financial Institutions for the Poor* (West Hartford, CT: Kumarian Press, 1994).

[21] A. Gaboury, M. Quirion, "Why we can no longer afford to ignore financial cooperatives in the efforts to increase access to financial services", Developpement International Desjardins (2006).

[22] P. Crear, paper presented at the expert group meeting on cooperatives, United Nations, New York, 28-30 April 2009.

[23] Paradis, paper presented at the expert group meeting on cooperatives, United Nations, New York, 28-30 April 2009.

[24] R. P. Christen. "New paradigms in microfinance", the Boulder Institute of Microfinance 2008 Microfinance Training Core Lecture, held at the International Labour Organization International Training Centre, Turin, 21 July 2008-1 August.

1. Financial cooperatives and the current financial and economic crises

34. The current financial crisis has led to a greater appreciation of the role of alternative financial institutions and the vulnerabilities in relying on a single form of economic/financial enterprise. During the crisis, the cooperative and credit union sector experienced an influx of deposit funds from member owners seeking a safer place to put their savings. In addition, this sector has been able to continue to lend prudently when other investor-owned banks, with weakened capital, have cut back on lending. Financial cooperatives displayed resilience and actually exhibited growth in savings and in loan volumes. In the Netherlands, for example, a cooperative bank saw 30 to 40 per cent growth in savings, loans to small and medium enterprises and mortgage lending in 2008. Its local member banks posted a 20 per cent increase in savings deposits, and a 16 per cent increase in business loans in 2008.[24] In the United States, credit unions extended 7 per cent, or $35 billion, more loans while lending by conventional banks contracted by $31 billion in 2008.[24] In Brazil, Canada and Ireland financial cooperatives were able to continue or increase previous lending levels as well. This outcome indicates the importance of institutional diversity to enhance the resilience of the financial system and the role of a strong alternative business model in economic enterprises such as the member-owned cooperative business model.

35. Financial cooperatives are among those that have weathered the recent financial crisis relatively well. The primary and local financial cooperatives proved to be the most stable part of the cooperative network. The fact that no credit union worldwide has so far required Government recapitalization to maintain its safety and soundness attests to their ability to withstand financial turbulence. In the Netherlands, the largest banks received Government capital support; the exception was a cooperative bank.

36. Losses have been largely limited to the apex level particularly in developed countries that invested in complex structured products and suffered significant mark downs.[25] The much reported failures in the United Kingdom of Northern Rock and Bradford and Bingley, former building societies that demutualized in 1997 and 2000, respectively, provide further evidence on the relative advantage of those that remained mutual societies or cooperatives.

2. Financial cooperatives and poverty reduction

37. Financial cooperatives contribute to poverty reduction in various ways. Financial cooperatives, by providing savings products, help to reduce members' vulnerabilities to shocks such as medical emergencies, or consumption smoothing. They encourage thrift for future investments, including education and small business enterprises. Financial cooperatives also provide their members with access to credit to finance micro-, small and medium enterprises that generate additional employment and incomes, and provide agricultural credit that help small farmers increase production and improve incomes. Some financial cooperatives, such as the Sistema de Crédito Cooperativo (SICREDI) in Brazil, also offer health insurance products, reducing members' vulnerability to catastrophic health costs.[26]

---

[25] Y. Vies, paper presented at the expert group meeting on cooperatives, United Nations, New York, 28-30 April 2009.

[26] R. Kloeppinger-Todd, A. Nair, "Reaching rural areas with financial services: lessons from financial cooperatives in Brazil, Burkina Faso, Kenya, and Sri Lanka", http://vle.worldbank.org/bnpp.

38. The primary product offering of financial cooperatives is low-cost savings facilities for the poor and small depositors. Empirical research of the last decade has demonstrated that demand for savings services exists, even among the poorest.[27] If formal means of savings are unavailable, poor people tend to use livestock, jewellery or other informal arrangements that typically have a low or negative interest rate. For people living in poverty, savings is critical to counterbalance the cyclicality of income. For example, coffee farmers in Rwanda join financial cooperatives to save money for the period before the next harvest and to reserve money for low yield years.[28] For the seven member countries of the West African monetary union, for example, cooperatives accumulated 96 per cent of mobilized savings and 64 per cent of disbursed loans of the microfinance sector, reaching 2 per cent of the population, or 1,440,000 persons.[9]

39. Financial cooperatives often offer multiple savings products to better cater to the needs of members. SafeSave, a financial cooperative based in Dhaka (Bangladesh), offers a programme tailored to the needs of urban informal workers, whose savings are collected on a daily basis. The cooperative's staff of 60 visits members daily to collect deposits, making it convenient for members to save small amounts of money.[27] SafeSave has achieved an average savings balance of $22 (as of 2003) per member, in a community with an annual per capita income that is significantly less than $400.[27]

40. Financial cooperatives provide access to credit for members who might not typically have access to the larger savings and commercial banks. This is significant in markets where financial providers are absent owing to poor revenue prospects, high risks, or high transaction costs. Because of their low cost structure and low profit targets, financial cooperatives are able to offer credit facilities at attractive rates, thereby providing alternatives to predatory lending and reducing the vulnerability of the poor to exploitation. Loan products offered by financial cooperatives include salary advances, agricultural input loans, working capital loans and equipment purchase. And in Burkina Faso, for example, the Réseau de caisses populaires du Burkina also grants loans for weddings and funerals.

41. Financial cooperatives are also important credit providers to small and medium enterprises, an important employment-generating sector in local economies. The Komak cooperative in Azerbaijan, for example, offers loan products to small and medium enterprises with an average loan size of $1,089. Similarly in Uruguay, the Cooperativa Nacional de Ahorro y Crédito offers a continuum of financial services to enterprises as they grow from marginal informal enterprises to sizable formalized companies.[29]

42. Financial cooperatives provide an important service as local economies increasingly rely on foreign remittances. In many developing countries, financial cooperatives provide transfer services which allow migrant workers to remit money to their home country at low cost. Since the World Council of Credit Unions initiated its remittance network in 2001, over $2 billion has been transferred. A 2005 survey of 502 credit unions members in Guatemala revealed that without World Council of Credit Unions remittances, 62 per cent of receiving households would

[27] B. de Aghion and J. Murdoch, *The Economics of Microfinance* (Cambridge, MIT Press, 2005).

[28] Reported in expert group meeting on cooperatives.

[29] Data is from Mixmarket, www.mixmarket.com (accessed 20 May 2009).

have per capita cash income of less than $1 per day.[22] This offers a concrete example of how cooperatives can facilitate poverty reduction.

D. Leveraging cooperatives for development

43. The preceding sections underscored the direct and indirect impact of cooperatives on socio-economic development. Through their business operations and programmes, cooperatives of various types contribute to food production and food security, provide access to financial services and help to create a resilient financial system, while generating jobs and raising incomes. In certain sectors and countries, cooperatives are among the largest economic participants in production, distribution and service provision. They also enhance skills and education in local communities, empowering women and marginalized segments of society. Their unique characteristics, based on their values and principles, make them institutionally important in poverty reduction and in improving living standards.

44. Part of the challenge in the pursuit of socio-economic development therefore lies in how to harness cooperatives towards such ends. While cooperatives do have social objectives and a strong sense of community, they are not State instrumentalities. They are, after all, self-help private enterprises organized for the benefit of their members. However, like other private businesses, cooperatives also respond to Government policies and will thrive well in supportive environments but struggle in others.

45. The primary means therefore of leveraging cooperatives for socio-economic development is to promote their formation and growth in a sustainable manner, consistent with cooperative values and principles and respectful of their autonomy. This requires a sound policy and legislative framework and a level playing field vis-à-vis other enterprises. Governments have already agreed to recognize and promote the cooperative sector, through agreements such as the United Nations guidelines on cooperatives and the ILO recommendation No. 193. The challenge remains one of effective implementation. There is also concern that the assistance given to investor-owned banks during the financial crisis will not lead to a long-term distortion of the financial market, and to the disadvantage of cooperatives.

46. Another element that will help to promote cooperative formation and growth is to raise public awareness of what they can do for their members. Communities that are more aware of successes of cooperatives in increasing the incomes, or providing quality low-cost products and services to members, are more likely to start cooperatives. In this effort, supportive training and technical skills extension are essential; they ensure that cooperatives starting out avoid common mistakes, learn from the experience of other cooperatives and have the skills to successfully lead and operate their cooperatives. The addition of cooperatives courses at all levels of the educational system has also been suggested as an important means of raising awareness about cooperatives. Study tours of successful cooperatives have also served as training opportunities.

47. A key aspect of the success of a cooperative is its ability to retain the trust of its members and to manage reputational risk issues. A vigilant membership base, bound by the democratic one-member-one-vote principle, is essential to addressing weak or unethical management, capture by local politicians, or other conflicts of

interests. The sound governance of cooperatives depends upon a well-informed and active membership base.

48. An issue related to raising public awareness is that of improving the information database on cooperatives. The current lack of robust and harmonized statistics, including research on cooperatives, makes it difficult to quantify and communicate their impact. This also makes it difficult for Governments to assess how policy formulations may affect cooperatives. Both Governments and international organizations can work together in developing robust methodology for collecting and gathering statistics on cooperatives. Funding such an international effort is essential.

49. The sound regulation of cooperatives facilitates the formation and growth of cooperatives, as they help to instil confidence in the operations of cooperatives. The formulation of such regulation is most helpful in promoting cooperatives when the distinct nature of cooperatives is recognized. This also applies to accounting standards, taxation regimes and to rules limiting access to capital. In Rwanda, for example, regulation recognized that the member-owned nature of cooperatives was a mitigating factor along with other controls, when the capital requirement for financial cooperatives was reduced to a fraction of that required for microfinance institutions. This helped financial cooperative formation in remote areas with limited transportation and communication infrastructure or where no other bank was willing to operate. A survey indicated that the level of financial integration in Rwanda is very high compared to its level of development.[30] Regulatory guidelines should also ensure that cooperatives maintain their autonomy and safeguard against politicization of cooperatives. A related issue is credible regulatory enforcement. It requires competent, trained and ethical supervisors.

50. Strengthening credit unions would require enabling them to have access to important financial services and networks typically available to commercial banks. This includes access to: (a) payment, clearing and settlement systems, including card payment networks, and (b) the central bank's liquidity window. In addition, there is need for financial cooperatives to have access to deposit insurance systems on par with other institutions. Finally, when they are capable, credit unions need the flexibility to issue alternative forms of capital. Even as credit unions seek the above-mentioned equal regulatory treatment, it is noted that the strongest credit union systems in the world operate under legislative frameworks that recognize the unique nature of financial cooperatives. This would suggest that such credit union-specific legislation would be appropriate in most instances, and can ensure an appropriate set of financial management disciplines, create ways to build and distribute capital, set governance oversight and establish a prudential supervisory framework for a large number of small institutions.[22]

51. Finally, achieving the appropriate framework for regulation of financial cooperatives remains a challenge for Governments. There is a need to balance the constraints of scarce regulatory resources against the need to provide depositor protection over a relatively large number of small institutions. Accordingly, different models have emerged as countries attempt to deal with this issue. In some countries, the regulator only supervises the largest financial cooperatives. This model emerged in Latin America in the 1990s and is now used in the Plurinational State of Bolivia,

[30] www.finscope.co.za (acessed 15 May 2009).

Chile, Colombia, Ecuador and El Salvador. Other countries such as Kenya have formally delegated supervisory power to the national association of credit unions. This, however, leads to a potential conflict of interest since the supervisor also has the objective of promoting the growth of the financial institution being supervised. Another category involves a single prudential regulator with supervision over all credit unions. While this model ensures uniform standards and eliminates regulatory arbitrage, it may not be appropriate and cost-effective in supervising small-sized institutions operating in remote areas. In some instances, the single prudential supervisor is a restructured ministry of cooperatives.[31] Given that the possible approaches have their different strengths and weaknesses, it is incumbent upon Governments to determine the appropriate balance of cost and effectiveness best suited for their respective conditions, while ensuring that the regulatory body is independent, well-trained and equipped to perform its responsibilities.

52. To scale up the contribution of agricultural cooperatives in food security involves increasing and diversifying food production, raising productivity, improving distribution and enhancing retention of food surplus locally. Facilitating access to financial services including credit extension for the purchase of seeds, fertilizers and equipment, and providing crop insurance are essential to promote increased production by cooperatives. The provision of year-round irrigation will increase farm productivity. Investments in transportation, communications and storage infrastructure will improve marketing and distribution of farm products and reduce spoilage. Finally, research and development in farming techniques and agricultural extension will enable cooperative members to adopt new farming technologies that will boost agricultural output. Improved access to markets will encourage subsistence farmers to produce surplus, while promoting the participation of women in cooperatives will lead to higher farm productivity.

III. Consultation and survey results

A. The proposed International Year of Cooperatives

53. The United Nations, along with other international agencies, recognizes the importance of cooperatives and their contributions to poverty reduction, employment generation and social inclusion. The World Bank recognizes the role of cooperatives in revitalizing the agricultural sector and the rural economy. A 2007 IMF study showed that "cooperative banks have become important parts of many financial systems".[32] In chapter II above, the roles of agricultural and financial cooperatives in socio-economic development were highlighted in the context of the recent food and financial crises.

54. An International Year of Cooperatives is timely as we face the worst financial and economic crisis since the Great Depression, threatening the socio-economic development of millions of people. Promoting cooperatives, as self-help organizations, can contribute to tackling the issues of poverty, unemployment and

[31] A. Poprawa, paper presented at the expert group meeting on cooperatives, United Nations, New York, 28-30 April 2009.

[32] M. Cihak and W. Fontayne, "Cooperative banking: flying under the radar", *IMF Survey Magazine* (September 2007), http://www.imf.org/external/pubs/ft/survey/so/2007/RES0925B.htm (accessed 10 December 2008).

loss of incomes, food insecurity and the lack of access of the poor to credit and financial services in the light of the current global economic crisis.

55. The objectives of the proposed International Year of Cooperatives include the following:

(a) Promoting awareness about cooperatives and how they benefit their members and contribute to socio-economic development and the achievement of Millennium Development Goals;

(b) Encouraging people to organize themselves into cooperatives as self-help measures to address their economic needs and as a means to empowerment;

(c) Encouraging Governments to establish policies, laws and regulation conducive to cooperative formation and growth;

(d) Promoting awareness of the global network of cooperatives and their efforts in community building, democracy and peace.

56. As part of the consultation with Member States and stakeholders specified by the General Assembly in resolution 62/128, a survey of Member States and ICA members was conducted to determine the desirability and feasibility of proclaiming an International Year of Cooperatives. A majority of responses support the proposal to declare an International Year of Cooperatives as a way of promoting cooperatives and raising awareness on their contribution to socio-economic development. Out of 40 Member States responding to the survey, 34 were in favour of the proposal while 2 were against and 4 abstained. Of the 28 apex cooperative organizations that responded to the survey, 27 were in support of the proposed International Year.

57. In this respect, an International Year of Cooperatives would highlight the significance of cooperatives in many societies, and would strengthen the international commitment to support cooperatives. The Year could serve as an impetus for the adoption of policies, programmes, projects as well as regulations that promote cooperatives, raise awareness about cooperatives and their contribution to socio-economic development. The Year would also provide a forum for dialogue on issues such as cooperative legislation and regulatory framework and cooperative autonomy.

58. Given the broad support for the proposed International Year of Cooperatives, the organization of such an international year seems feasible. If the International Year of Cooperatives is proclaimed, several issues will have to be finalized, including institutional and funding arrangements. A small secretariat for the Year will have to be set up within the United Nations system to coordinate, promote and support the activities of the United Nations system for the observance of the Year. Also, coordinated efforts among stakeholders through partner engagement and mobilization are obviously necessary for a successful observance of a Year.

59. The United Nations guidelines for declaring International Years (Economic and Social Council resolution 1980/67) encourages countries to establish national committees or other mechanisms for the observance of the Year at the national level. Thus, national level partnerships and participation of all stakeholders are essential for the observance of the Year. Finally, mobilizing funding through voluntary contributions is crucial for a successful observance of a Year.

B. Survey results

60. The survey conducted also looked into the initiatives taken to promote the formation and growth of cooperatives and the challenges faced. Thirty-nine of 40 responding Member States reported that cooperatives play an important role in their socio-economic development and noted that cooperatives serve an important function in providing accessible financial services, promoting rural enterprises and providing livelihoods for the poor.

61. In resolution 62/128, the General Assembly also drew the attention of Member States to the need to review the legal and administrative provisions governing the activities of cooperatives in order to enhance the growth and sustainability of cooperatives. Over all, the main thrust for legislative frameworks on cooperatives has been provided by ILO Recommendation No. 193 of 2002. The recommendation stresses the need for self-management and autonomy of cooperatives as well as providing an enabling environment and level playing field so cooperatives can operate on a sustainable basis vis-à-vis other enterprises. At the national level, the recommendation has enabled Government to develop policies aligned with the cooperative principles.

62. From the survey results, Governments recognize the challenge of cooperative autonomy and of avoiding undue political interference in cooperatives, especially at the apex level; this was echoed by cooperative associations. A number of countries reported on their efforts to modernize the legal framework for cooperatives, including updating and amending regulatory practices, and ensuring autonomy of member-governance (Burundi, Slovenia). For economies in transition (Viet Nam) this is a challenge for cooperatives established under central planning and are now re-evaluated against this international standard of genuine cooperatives.

63. Governments also support the growth of cooperatives through tax relief (Chile, Mauritius). Nonetheless, some countries are under pressure to have their tax-exempt status removed (Portugal). The policy question, therefore, is how to identify appropriate and fair taxation that considers the specificities of different cooperatives. In Bulgaria, the Government encourages cooperatives to provide services in areas where markets have been absent or inefficient. Greece stresses the role of supportive measures to facilitate the ability of cooperatives to promote labour market integration of persons with disabilities. In the European Union framework, programmes for promoting the social economy contribute to the promotion of cooperatives, according to Greece.

64. Responses from Member States also indicated that the three principal constraints faced by cooperatives which Governments seek to address include the lack of quality training, problems of cooperative regulations and legislation, and the lack of access to finance. Apex cooperative organizations said the lack of training and of public awareness of cooperatives was their predominant concern.

65. Governments have introduced measures to provide a level playing field for cooperatives vis-à-vis other types of business by providing training and business development services. Government strategies to build the capacity of cooperatives include education and skills development, free audit services, technical guidance and consultancy services which are often integrated with financial assistance. Some provide start-up assistance through grants and investment guarantees (Latvia), while others provide training for cooperatives through specialized institutions.

66. Member States also recognized that partnerships and networking between cooperatives can help to improve sales and back-office operations and management information-systems. It was also suggested that cooperatives participate in government procurement processes and competitively offer their products and services, as in distributing government-subsidized farm inputs to farmers.

IV. Conclusion and recommendations

67. **Cooperatives make important contributions to socio-economic development. The capacity of cooperatives for creating viable and sustainable enterprises secures productive employment and the generation of income, thereby contributing to poverty reduction. In addition, cooperatives, driven by their values and principles and focus on their local communities, strengthen rural economies and provide significant positive externalities for the rest of society.**

68. **Leveraging the contribution of cooperatives to development requires the promotion, formation and growth of cooperatives in a manner that is sustainable and respectful of their autonomy. Declaring an International Year of Cooperatives could play a catalytic role in this regard.**

69. **The General Assembly may wish to consider the following recommendations and invite Governments and international organizations, in partnership with cooperatives and cooperative organizations to:**

(a) **Approve and support the proposed International Year of Cooperatives as a global initiative to promote cooperatives and raise awareness of their socio-economic contributions;**

(b) **Encourage the formation and growth of cooperatives of all types by ensuring an enabling environment with a sound legislative and regulatory framework that recognizes the unique characteristics of cooperatives, their strengths and weaknesses, while respecting their autonomy;**

(c) **Promote the growth of financial cooperatives to meet the goal of inclusive finance by providing access to financial services for all;**

(d) **Promote the growth of agricultural cooperatives through access to finance, adoption of sustainable production techniques, investments in rural infrastructure and irrigation, strengthened marketing mechanisms, and support for the participation of women in economic activities;**

(e) **Promote education and training for the sound operation of cooperatives in schools among potential and existing members and leaders of cooperatives and support research and development and the provision of technical assistance;**

(f) **Improve research and the information database on cooperatives globally, harmonizing statistical methodologies to enable sound policy formulation.**

Annex I

List of Member States that responded to the survey

Argentina
Austria
Bolivia (Plurinational State of)
Bulgaria
Burkina Faso
Burundi
Cameroon
Chile
Croatia
Cyprus
Denmark
El Salvador
Finland
Fiji
Ghana
Greece
Iran (Islamic Republic of)
Kazakhstan
Kenya
Latvia
Malaysia
Mauritius
Mauritania
Montenegro
Morocco
Mexico
Pakistan
Portugal
Qatar
Singapore
Slovenia
Sri Lanka
Swaziland
Sweden
Togo
Trinidad and Tobago
Uruguay
United Arab Emirates
Viet Nam
Zambia

Annex II

List of apex organizations that responded to the survey

Association of Asian Confederation of Credit Unions (Thailand)

Central Cooperative Union (Bulgaria)

Central Union of Agricultural Cooperatives (Japan)

Central Union of Consumer Societies of the Russian Federation

Central Union of Turkish Agricultural Credit Cooperatives

ConfCooperative (Italy)

Confederación de Cooperativas de Colombia

Cooperative Central Bank Ltd./Pan-Cyprian Coop. Confederation Ltd.

Co-operatives (United Kingdom)

Groupement National de le Coopération (France)

Instituto Movilizador de Fondos Cooperativos Ltd. (Argentina)

Japan Workers Cooperative Union

Japanese Consumer Cooperative Union

Karachi Cooperative Housing Societies Union Ltd.

Korean Federation of Community Credit Cooperatives

LegaCoop (Italy)

Lithuanian Union of Cooperatives Societies

National Cooperative Business Association (United States of America)

National Cooperative Council (Krajowa Rada Spółdzielcza-Poland)

National Cooperative Federation of Nepal

National Cooperative Organization of Malaysia

National Federation of Workers and Consumers Insurance Cooperatives (Japan)

National Union of Worker Producers' Cooperatives (Bulgaria)

Panhellenic Confederation of Unions of Agricultural Cooperatives (Greece)

Singapore National Cooperative Federation

Unimed do Estado de São Paulo-Federação Estadual das Cooperatives Médicas (Brazil)

Union of Czech and Moravian Housing Cooperatives

Viet Nam Cooperative Alliance